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Regional Developmentalism in West Africa: The Case for Commodity-Based Industrialisation through Regional Cooperation in the Cocoa-Chocolate Sector

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Abstract

Regional integration occupies a prominent place in the economic policies of most Sub-Saharan African countries. However, despite different waves of initiatives across the African continent, the majority of African regional schemes have not managed to achieve their ambitious goal of promoting sustainable development through trade integration in Africa. In light of this observation, using the West African cocoa-chocolate sector as a case study, we propose the regional developmentalism paradigm as an alternative approach to regionalism in Africa, placing a particular emphasis on the use of regional and sub-regional approaches to development. Instead of full-fledged trade liberalisation and indiscriminate economic integration, the regional developmentalism paradigm advocates for state-led trade facilitation, regulatory convergence and capacity-building through the adoption of policies directed at strategic sectors. We evaluate the potential of the regional developmentalism paradigm to promote economic transformation and commodity-based industrialisation against the shortcomings of the current regional integration approach embodied in the institutional framework of ECOWAS.

Keywords: West Africa, regional integration, development, developmental state, industrialisation, cocoa, ECOWAS

JEL classification: F02, F13, K33, O13, O24

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1. Introduction

According to the neoliberal paradigm, regional economic integration should strengthen a region's commercial interests and foster trade diversification and creation. Trade integration in particular involves the removal of tariff and non-tariff barriers to trade, which is expected to promote the free movement of goods, services and factors of production across regional borders and thereby accelerate countries' economic growth and development (Lindberg and Scheingold, 1971). Given its expected benefits, regional integration has been one of the key policy initiatives across the African continent. This is evident in recent efforts to advance regional integration through the signing in March 2018 of the Agreement to establish an African Continental Free Trade Area, which aims to create a continental market for goods and services.[1] However, despite multiple waves of regional economic integration initiatives over the years, the majority of African regional schemes has not achieved the ambitious goal of economic growth via trade creation, nor have regions become more economically integrated.

Existing literature has pinned the failure of African regional schemes to deliver the intended results to design flaws. More specifically, it is argued that the European Union inspired model of economic integration that has been adopted by most schemes is unlikely to be adapted to the specific needs and circumstances of the participating economies and is therefore unable to produce the intended results (Draper, 2010). Under this EU-inspired model, regional integration is achieved through various stages in linear succession, which include (1) preferential and free trade areas in which participating countries scale down or completely abolish tariffs and other quantitative restrictions on regional trade; (2) a Customs Union which includes both the abolition of tariffs among participating countries and the adoption of a common external trade policy; and (3) a Common Market which involves the abolition of all barriers to trade and the free movement of factors of production (labour and capital); for further details see Balassa (1962) and Kyambalesa and Houngnikpo (2006, p.1). More advanced forms can also include (4) an Economic Union, with the adoption of common economic policies or (5) a Monetary Union, with the adoption of a common currency (ibid).[2]

Trade creation and integration is expected to occur as countries gain access to larger markets. As cross-border trade provides both new markets for exports and cheaper imports, consumer surplus is thought to increase and production gains made (Pelkmans, 1986, p.318). However, full-fledged trade liberalisation and free movement of goods and services are unlikely to be advantageous for most African economies as their exports are not diversified and predominantly of the low value-added kind; see

[1] The African Continental Free Trade Area (AfCFTA) was launched at the 10th Extraordinary Session of the Assembly of the African Union, held in Kigali, Rwanda on 21 March 2018.
[2] The Eurozone, which includes 19 of the 28 members of the European Union, falls in this category.

UNECA (1990, p.19) and also UNCTAD (2000, 2002).[3] A vast majority of African economies depend on the export of primary commodities and imports of manufactured goods leading to deteriorating terms of trade. Industrialisation, where it happened, has been slow. The process is hampered by competition from large multinational companies (MNCs) which, equipped with better resources and more attractive products, increasingly access domestic markets. This situation has adversely affected the African countries' infant industries, which are often unable to cope with the foreign competition; see Khor (2008) and UNECA (1989, p.19). Hence, rather than promoting structural transformation and economic growth,[4] trade liberalisation has often increased regions' dependence on primary commodity exports, as countries have been unable to promote the growth of their domestic industries.

Consequently, the reduction of barriers to trade has failed to promote sustained economic growth in the past and primary commodity exporting countries continue to grapple with declining terms of trade and notoriously volatile commodity prices which make an effective management of their macro economy almost impossible (Paul, 2003, p.30).[5] This reality has been exacerbated by the current COVID-19 pandemic, which has further exposed Africa's over-reliance on its commodity trade with the rest of the world, which raises fears of catastrophic consequences of this situation on most African economies.

Acknowledging the argument of design flaws in existing regional integration schemes, this paper goes further and argues that the concept of regional integration in itself is inappropriately framed to achieve the objectives associated with it in the context of most African economies. Our contribution is twofold: First, we demonstrate that the perceived automatism between the abolition of tariffs and regional integration is illusionary, establishing the de jure - de facto fallacy, and highlighting the need for a political economy approach to understand why an effective regional integration has not taken place in many African regional schemes. Second, on the basis of our analysis we propose an alternative concept to regional integration that is more suitable for economies where the need for structural transformation is prevalent and comparative advantages need to be created through strategic regional governance.

Our alternative approach is based on the concept of *regional developmentalism*.[6] The *regional developmentalism* approach is inspired by the new developmental state

[3] It is argued in UNECA (1990) that, although trade liberalisation might result in a significant increase of exports, it might not constitute the most appropriate measure to help developing countries diversify their exports and shift their production system out of primary commodities and thereby promoting sustained economic growth. The report argues for trade policies that take into account local circumstances and maximise a sustained domestic growth, including policies that might not involve the reduction of trade barriers.

[4] Structural transformation refers to productivity-enhancing structural change as defined in Nissanke (2019).

[5] Although it was recently argued by Kaplinsky (2006) that the trend has been reversed with increasing demand from China and India.

[6] This paradigm has been developed in Bashi Rudahindwa (2018). It is inspired by the discussions in Sherman (2009) and Trubek (2009). This approach differs from the concept of "developmental

paradigm and argues for a strong emphasis on socio-economic development as the very reason for the existence of regional trade arrangements and regional communities. Instead of full-fledged trade liberalisation and indiscriminate economic integration, the *regional developmentalism* paradigm advocates for state-led trade facilitation, inward investments and productive capacity development in an attempt to reverse the adverse effects that the international economic order has on lower- and middle-income countries. According to this approach, regional integration schemes that do not achieve this goal should be either dissolved or transformed, to prevent them from becoming an impediment to the economies of the participating countries.[7] *Regional developmentalism* therefore argues for the adoption of regional and sub-regional approaches to development,[8] as well as for a set of new policies that emphasise dynamic economic and corporate governance. The approach emphasises the need to take into account not only the domestic and regional context but the global political economy context within which regions operate and the constraints therein to design effective policies that achieve economic transformation. This strategy is suggested to provide for a new and more suitable conceptual paradigm to incite sustainable development across the African continent; see the New Partnership for Africa's Development Framework Document, NEPAD (2001, article 27), and also Kouam (2008, p.113-126) and Aka (2012, p.56).

It is in this context that sectoral integration is presented as a viable first step before or even instead of full-fledged trade liberalisation. Sectoral integration could take into consideration the particular circumstances of the countries participating in regional schemes by targeting key economic sectors which are more likely to help promote industrialisation, export diversification and sustained economic growth through spill-overs and the creation of regional value chains. This strategy is likely to allow countries to proceed to a gradual liberalisation if desired, while taking time to strengthen their infant industries' competitiveness.

The spirit of this approach is already embraced by recent initiatives launched within the African Union, including the Action Plan for Boosting Intra-African Trade Initiative (BIAT) and the Programme for Infrastructure Development in Africa (PIDA) which, beyond a simple promotion of cross-border trade and the increase in regional exchanges, puts a particular emphasis on measures designed to strengthen the productive capacity of African states.[9] With the same idea, the West African Common

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regionalism" in that it places greater emphasis on identifying the harmful effects of the international economic order on developing countries, as well as on the various measures to be adopted to overcome them. Developmental regionalism is discussed in UNCTAD (2013) or in Ismail (2020).

[7] E.g., East African Community, which was established in 1967 but dissolved in 1977 because of structural problems, before being re-established in July 2000.

[8] This strategy is intended to address the shortcomings of previous regional approaches which tended to promote a set of policies designed to support economic growth regardless of Sub-Saharan African countries' particular circumstances. The new strategy is therefore aimed at providing an approach that corresponds to the needs of specific countries and regions.

[9] For further details on the BIAT and PIDA, see https://au.int/en/ti/biat/about and https://au.int/en/ie/pida (accessed 11/09/2018).

Industrial Policy (WACIP) was adopted by the Economic Community of West African States (ECOWAS) in 2010 to boost the industrialisation of the region through regional infrastructure development and the promotion of value-added transformation of raw materials.

The analysis conducted in this paper focuses on ECOWAS, which has adopted an EU-inspired linear approach to regional economic integration in which both regulatory and institutional frameworks (de jure integration) have been improved over the years to advance the integration process and establish an Economic Union. ECOWAS, however, also provides the example of an African Regional Economic Community (REC) in which efforts towards an effective formal regional economic integration (de facto integration) have been relatively slow. We illustrate the de jure - de facto fallacy of the regional integration approach on the example of the cocoa-chocolate sector which is considered one of the region's strategic sectors and use the sector case study to explore the feasibility of the *regional developmentalism* approach. In light of the findings of our analysis, the paper firstly reiterates the argument that the current paradigm of economic integration followed by the region is not apt to the needs of the participating countries and secondly outlines how the concept of *regional developmentalism* could present a viable alternative.

The paper is divided into five sections. Following this introduction, the second section consists of an overview of the progress made by ECOWAS since its establishment to its regulatory and institutional frameworks (de jure integration). The third section highlights the de jure - de facto fallacy on the example of the West African cocoa-chocolate sector and provides an analysis on the causes and consequences of this fallacy. The fourth section makes a case for *regional developmentalism* to tackle the causes identified in section three. In light of this analysis, the concluding remarks in the fifth section are used to summarise the various arguments developed throughout the paper and to consider the potential benefits that a sectoral integration could bring to the region.

2. De Jure Integration: The Economic Community of West African States (ECOWAS)

ECOWAS was founded in 1975 as a regional group to promote integration across the region. It consists of the 15 West African countries Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo.[10] ECOWAS countries, apart from Cape Verde, are split into two currency and customs unions: the Union Economique et Monétaire Ouest Africaine - UEMOA (in English: West African Economic and Monetary Union) comprises eight ECOWAS member states – Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, Togo, and Guinea-Bissau – which share the CFA Franc as a common

[10] Although originally a member, Mauritania left ECOWAS in 2000 to join the Arab Maghreb Union which today consists of Algeria, Libya, Morocco and Tunisia

currency. The declared aim of the union is the creation of a common market and the adoption of harmonised fiscal policies. Further, ECOWAS and UEMOA have developed a common plan on trade liberalisation including common rules of origin. The West African Monetary Zone - WAMZ, comprises six ECOWAS countries – Gambia, Ghana, Guinea, Nigeria, Sierra Leone, and Liberia – with the declared aim to introduce a common currency (ECO). In contrast to UEMOA, WAMZ is not a customs union.

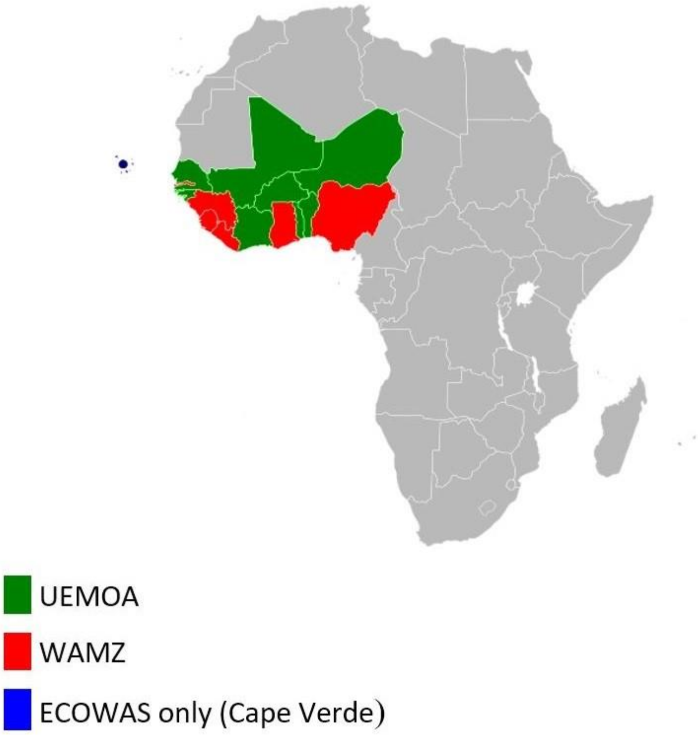


Figure 1: ECOWAS

ECOWAS was established with the ultimate goal of fostering economic and social development in its Member States, a goal which was to be achieved through an ‘effective cooperation largely through a determined and concerted policy of self-reliance’.[11] During this first phase, the integration process focused primarily on several key sectors, including industry, telecommunications, energy, agriculture, natural resources, commerce, monetary and financial issues and social and cultural matters. This initial approach to regionalism was adopted to accommodate the Member States’ concerns over their sovereignty and independence and was expected to promote and develop the region’s local businesses as well as to promote intra-regional trade, allowing the Member States to increase their self-reliance and reverse a cycle of significant external dependence which was a direct consequence of the institutional framework inherited from colonialism, which was designed to meet the needs of the former colonial powers for raw materials.

[11] See the Preamble of the 1975 ECOWAS Treaty.

The provisions of the Treaty constituted the fundamental and primary source of law in the Community and were supposed to be implemented through secondary legislation to be issued by two main institutions, the Authority of Heads of States and Government and the Council of Ministers, in order to achieve the goals of the Community.[12] The harmonisation of policies was also recognised as a mechanism necessary for the effective functioning of the Community.[13] The Treaty provided for harmonisation of policies in key areas to promote regional development, including harmonisation of industrial incentives, industrial development plans and economic policies (ECOWAS, 1975, article 30). Other areas which were expected to be covered by the harmonisation process included the free movements of goods, services, persons and capital, aimed at creating a legal environment broadly the same in all Member States in order to facilitate the implementation of the Treaty provisions (Ovrawah, 1994). Further, a Trade Liberalisation Scheme (TLS) was adopted and aimed at the total removal of tariffs on all unprocessed goods and handicrafts as well as the progressive elimination of tariffs on all industrial products from 1981 to 1989 (Omorogbe, 1992).

With the view to furthering the integration process in the region and to ensure the success of the Community in achieving its goal, the ECOWAS Member States initiated a series of revisions of the Lagos Treaty, which culminated with the adoption of a new Treaty in Cotonou, Benin in July 1993. Through the 1993 ECOWAS Treaty, the Member States recommitted themselves to economic integration by proceeding to the relevant amendments to the 1975 Treaty and by attempting to set definite timetables for progress to the next stages of the integration process[14]. These amendments aimed inter alia at strengthening the binding nature of the legal instruments of the community (Authority's decisions and Council's regulations) upon the ECOWAS Member States (ECOWAS, 1993, articles 9(4) and 12(3))[15] and the improvement of the Community law-making process (ECOWAS, 1993, articles 9(2) and 12(2)).

In parallel to the strengthening of the Community's regulatory framework, the 1993 Treaty provided for the establishment of new institutions which were supposed to increase popular participation in the Community decision-making process, hence ensuring that these decisions truly reflected the aspirations of the people. Although the Authority and the Council remained generally unchanged, the Secretariat was strengthened and a Community Parliament, an Economic and Social Council and a Court of Justice were introduced (ECOWAS, 1993, article 6). In particular, the Community Court of Justice (CCJ) was given a wider mandate compared to the

[12] The 1975 ECOWAS Treaty, article 5 (3) provided for the decisions and directions of the Authority whereas article 6 (3) provided for the ones by the Council.

[13] The 1975 ECOWAS Treaty, article 2 (g) provides for "the harmonisation of the economic and industrial policies of the Member States and the elimination of disparities in the level of development of the Member States."

[14] 1993 ECOWAS Treaty, article 3 (2) provides for clear stages supposed to lead the Community towards the establishment of a Common Market. Moreover, articles 35 and 54 provide for fixed deadlines for the establishment of a Customs Union (within 10 years from 1 January 1990) and a Monetary Union 5 years after the customs union.

[15] The instruments adopted by the Council were renamed "regulations" in order to distinguish them from the "decisions" made by the Authority.

Tribunal under the 1975 Treaty, and the Economic and Social Council was aimed at conveying the needs and concerns of local businesses to the Community. This initiative strengthened the role of the Court in the dispute resolution mechanism, helping it to play a more significant role in the integration process of the region by compelling both the Member States and the Community institutions to apply the Treaty provisions in a uniform manner.

The last revision of the ECOWAS's legal framework occurred in 2006, with the transformation of the Executive Secretariat into the ECOWAS Commission, to allow it to be more effective in order to further the integration process; see Kufuor (2006) and Gathii (2011, p.155). The restructuring provided the Commission with a president, a vice-president and different commissioners in charge of several departments working on specific areas to be developed through regional cooperation[16]. Alongside the transformation of the Commission, a Common External Tariff (CET) was adopted by the Authority of Heads of State and Government, to ensure the transformation of the Community into a Customs Union.

With a view to addressing the region's continuing dependence on primary commodity exports, ECOWAS adopted two regional legal instruments, namely the ECOWAS Agricultural Policy (ECOWAP) in 2005 and the West African Common Industrial Policy (WACIP) in 2010. ECOWAP, which is intended to apply the Comprehensive Africa Agricultural Programme developed through NEPAD[17], provides for a Regional Agricultural Investment Plan (RAIP), which is aimed at giving general principles to be applied in each Member State through various National Agricultural Investment Plans (NAIPs) (ECOWAS, 2005, p.6). The general principles outlined under ECOWAP include food security, fair remuneration of farmers and agricultural wage labour, expansion of trade and value addition and a common regulatory framework (ECOWAS, 2008). WACIP, on the other hand, is aimed at accelerating the industrialisation of the region through the endogenous transformation of locally produced raw materials and the development of regional infrastructure (ECOWAS, 2010, p.2).

Although the intentions behind the adoption of ECOWAP and WACIP are aligned with the spirit of the *regional developmentalism* paradigm, these lack efficacy in their current form. While efforts to materialise the Member States' planned interventions under ECOWAP have been slow and been undermined by multiple financial constraints (Crola, 2015), WACIP has not provided for an adequate mechanism for the application of its policies at the national level. Moreover, WACIP does not provide for appropriate incentives aimed at reversing the current production structure (OSIWA, 2015).

[16] These departments include Administration and Finance; Agriculture, Environment and Water Resources; Human Development and Gender; Infrastructure; Macro-economic Policy; Political Affairs, Peace and Security; Trade, Customs, Industry and Free Movement.

[17] The CAADP was established by NEPAD in 2003 to promote agricultural development across the continent.

In light of the above account of the institutional and regulatory evolution of ECOWAS, we will move to analyse the shortcomings of the existing regional integration approach on the example of the West-Africa cocoa-chocolate sector, identifying the absence of regional integration despite the sector's strategic importance and demonstrating the benefits of an alternative conceptual approach and the corresponding regulatory strategy, specifically designed to promote both sectoral integration and commodity-based industrialisation and, thereby, a more effective regional development through structural transformation.

3. De Jure - De Facto Fallacy

Despite the gradual improvement of both its regulatory and institutional frameworks (de jure integration), deeper economic integration within the ECOWAS region has not materialised; see Figure 2. Trade within the region has actually become relatively less important since the establishment of the Free Trade Area in 2000; see ECOWAS (2007, p.2) and UNECA (2013b). Although trade volumes grew steadily, the growth in intraregional trade fails to match the rise in exports and imports to and from the EU, US and increasingly also the so-called BRICS economies, Brazil, Russia, India, China, and South Africa. Tendencies towards trade diversification into higher value-added segments of supply chains are also largely absent. The region continues to be heavily dependent on primary commodity exports,[18] as painfully demonstrated by the comovement of export income and commodity prices while expenditures on imports are largely unaffected by the price cycles.[19] It is easy to see from the bottom half of Figure 2, how the latest commodity price slump had devastating consequences for the balance of payment position of the ECOWAS region. The region's continuous reliance on primary commodity exports hampers its efforts towards economic transformation, production diversification and sustainable economic development (ECOWAS, 2007, p.3).

Part of this lack of economic integration is explained by the fact that most ECOWAS Member States are yet to remove tariff and non-tariff barriers to intra-regional trade and thereby implement a fully functioning Customs Union (UNCTAD, 2018; ITC, 2016). However, we argue that the observed failure to remove tariff and non-tariff barriers and the lack of progress towards increasing regional economic integration is no unintended consequence of slowly adjusting institutional structures but a direct result of the imposition of a misguided paradigm of regional integration.

[18] All ECOWAS Member States were listed as commodity export dependent in the UNCTAD (2019) report on the state of commodity dependence. Most ECOWAS member states' exports contain more than 80 per cent primary commodities.

[19] The exception here are imports of refined oil from the United Arab Emirates which are accounted for under the 'Other' category.

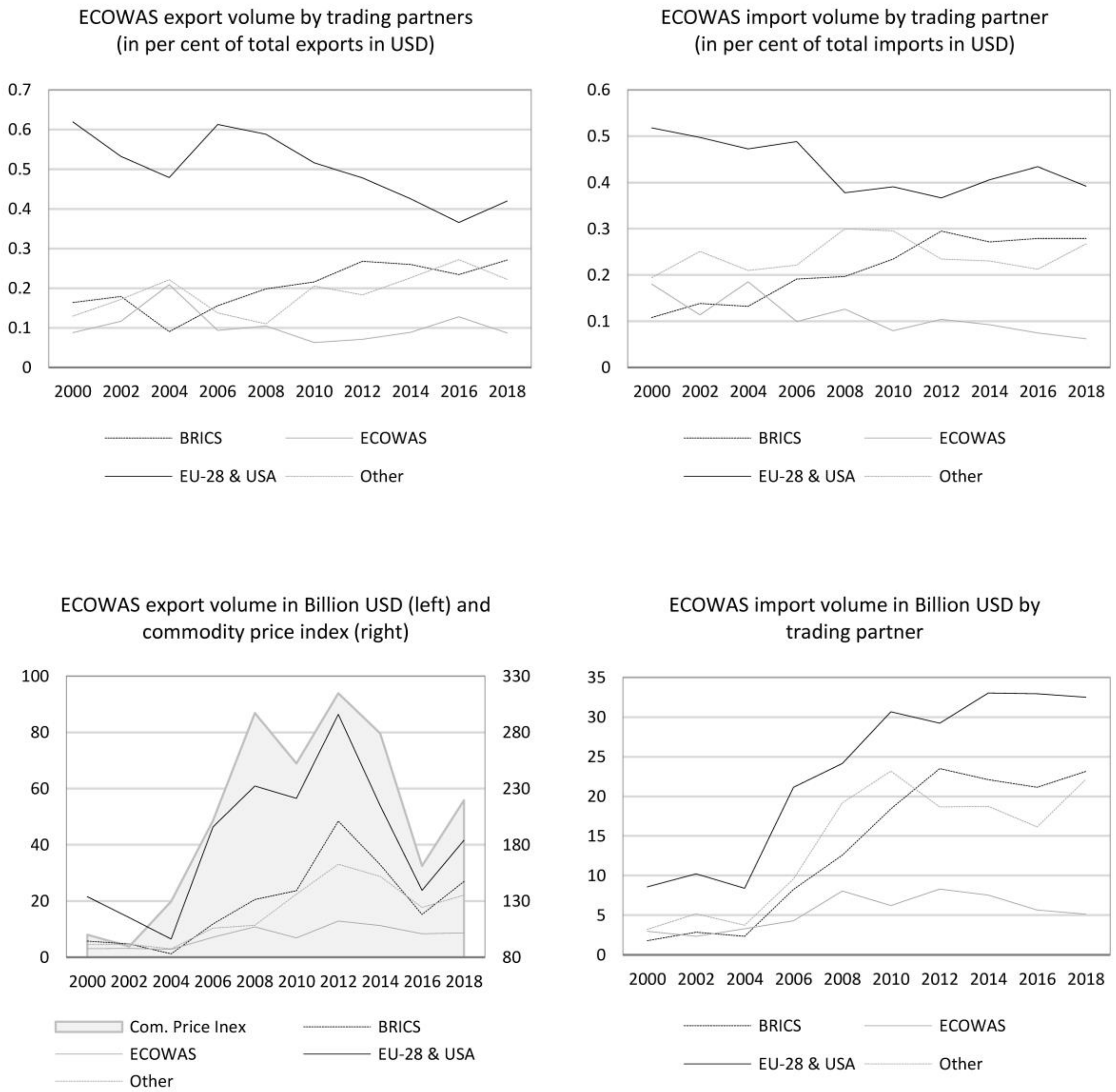


Figure 2: ECOWAS Trading Partners, per cent of annual trade volume in USD and annual trade volume in Billion USD. Source: Comtrade for trade volume. UNCTAD for commodity price index (2015 = 100, all groups).

It is against this observed failure of the current paradigm that we highlight the need for the adoption of an alternative conceptual approach and corresponding regulatory strategy, both specifically designed to promote sectoral integration and commodity-based industrialisation and, thereby, a more effective regional development facilitated by economic structural transformation.

Taking the West African cocoa-chocolate sector as a case study, we outline the failure of the existing regional integration paradigm to effectively address key bottlenecks that prevent large scale upgrading into higher value addition and commodity-based industrialisation via regional markets. The cocoa-chocolate sector has been identified as one of the strategic agri-food industries as part of the priority industry sectors identified under WACIP for the development of regional industrial plans to raise local processing before export (Traore, 2016).

3.1 The West African Cocoa-Chocolate Sector

As many agri-food chains, the global cocoa-chocolate chain is shaped by a high concentration of buyer power in the hands of a few MNCs (Gereffi, 1994; Cramer, 1999; Gibbon, 2001; Talbot, 2009), which makes it difficult for newcomers, which yet lack the necessary infrastructure, skills, and size, to enter. Two lead segments dominate the global cocoa-chocolate supply chain: grinders, who process cocoa beans into intermediate products and branders, who manufacture consumable end-products and merchandise them (Fold, 2001, 2002). Large supermarket chains have been suggested as an additional lead segment as they increasingly appropriate a share in value addition by supporting their own brands (Fold, 2008; Fold and Larsen, 2011; UNECA, 2013a). These lead segments are highly concentrated with a handful of MNCs holding more than 50 per cent of the global market share (TCC, 2010; Gilbert, 2007). In addition to the market power of incumbent MNCs, national and international standards for cocoa beans and cocoa containing foodstuff are highly complex and for many countries, tariffs increase progressively with the degree of cocoa processing, posing an effective barrier to entry.[20]

In this context, it has repeatedly been argued that the most promising route for new entrants into a global value chain is via regional markets (UNECA, 2013a; Nissanke, 2019; Lee et al., 2017). Regional markets can provide necessary linkages and technological spill-overs for the infant industries to develop, whereby local firms are able to build up capabilities in regional markets which are less demanding in terms of standards and competition (Humphrey and Schmitz, 2004). This rationale is at the heart of the revised treaty of 1993 and 2006 which firmly commits to promoting value addition at origin. In addition, the latest COVID-19 crisis has demonstrated the fragility of globally dispersed supply networks and reinvigorated an interest in regional networks. However, despite West Africa being the single largest region to contribute to world cocoa bean supply (75 per cent of the world's cocoa is produced in West Africa driven mainly by Côte d'Ivoire and Ghana and with much lower volume also Nigeria), only 2 per cent of the $100 billion cocoa industry is generated in the region and cocoa beans are largely exported with no or little processing for value addition (TAFAC, 2019).

Paradoxically, West Africa and the African continent in general are among the fastest growing markets for consumer chocolate and cocoa containing food stuff, whereby the rising demand is satisfied in great parts through imports from outside the region (89 per cent of chocolate imports originate from outside the region); see Figure 3. Europe

[20] E.g., for European countries these are set by the Commission Regulation (EC) No 1881/2006 which sets maximum levels for certain contaminants in foodstuffs.

and the Americas (including the US) remain the largest cocoa consuming regions, however growth rates have been low, hovering around 1 per cent annual growth since the Global Financial Crisis (GFC) and subsequent recession of 2007/08. Over the same time, growth rates in Africa reached 7 per cent and only declined with the collapse of commodity prices in 2016.

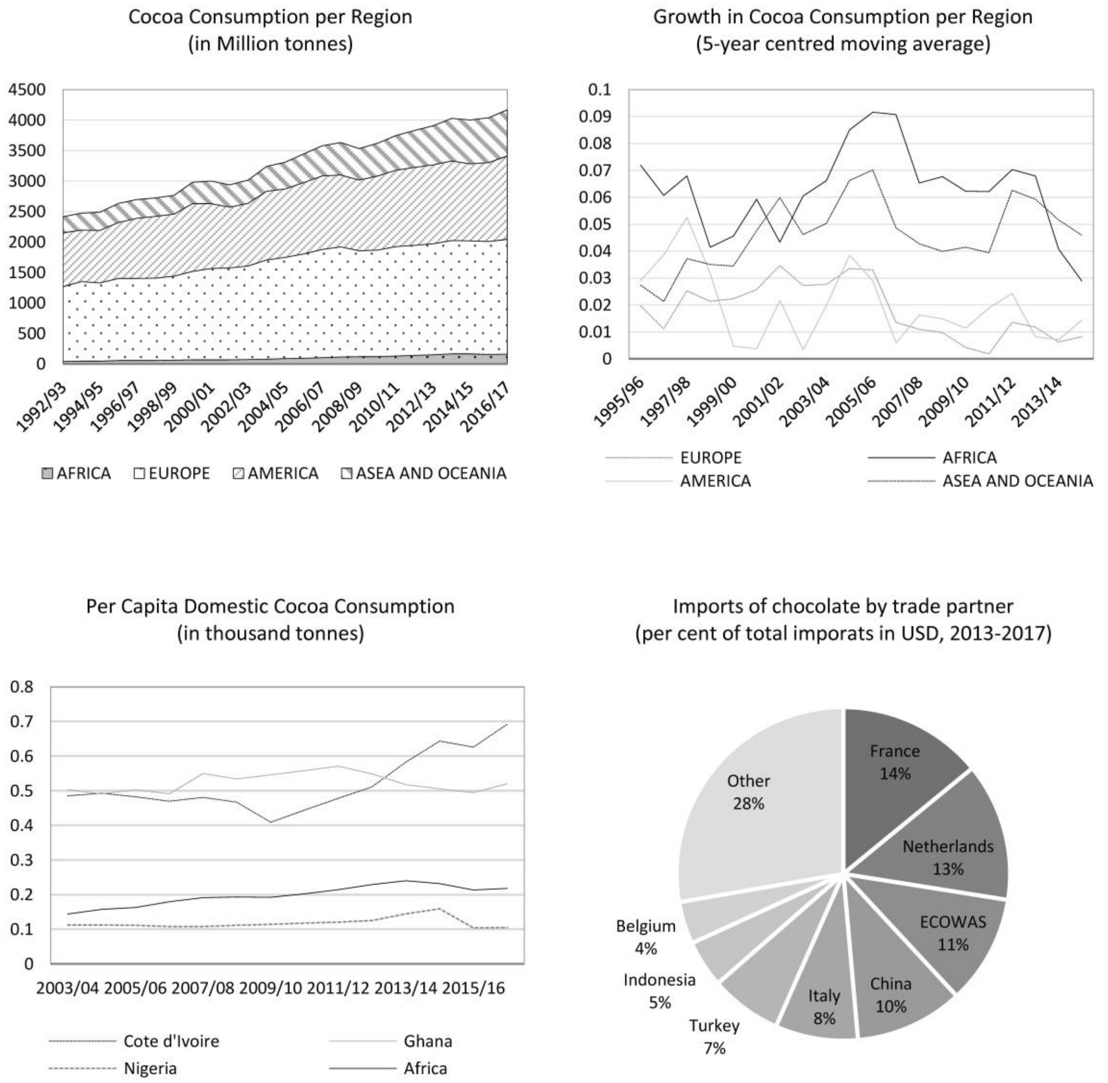


Figure 3: Cocoa Consumption Comparison by World Region and Chocolate and Other Food Preparations Containing Cocoa Imports by ECOWAS by Trade Partner. *Source:* ICCO, Quarterly Bulletin of Cocoa Statistics. UN Comtrade Database.

The two major cocoa producers, Ghana and Côte d'Ivoire have the highest per capita cocoa consumption, while per capita consumption in Nigeria, the largest of the ECOWAS economies, is below the African average despite its proximity to the cocoa producing centres and being a cocoa producer herself. As evident from the growth figures, chocolate and cocoa containing food stuff are luxury food goods. Demand is strongly correlated with income and hence sensitive to economic recession. Although the African chocolate market is still small compared to other world regions, the high growth rates experienced over the last decade driven by a rising middle class might turn the region into an attractive investment destination for the confectionary industry.

Value addition in the cocoa-chocolate sector is achieved through grinding. Grinding is the process in which the cocoa nibs’ (inner bean part after roasting) cell structure is broken up so that the cocoa butter is released. At this processing stage one obtains cocoa liquor. In a second stage the liquor can be pressed to obtain cocoa butter and cocoa cake at equal share. Butter is an essential ingredient in chocolate, while powder, won from the cocoa cake, is used for drinking chocolate, cookies and other confectionery products. Value addition at origin through grinding has increased considerably in the region, predominantly through the addition of processing capacity in Ghana and Côte d’Ivoire, the two main cocoa bean producers. As a result, the African continent increased its share by more than 8 percentage points between 2000 and 2016. However, despite the capacity increase, the continent still has the lowest local processing capacity relative to its bean production and the export of raw beans remains by far the dominant driver of export earnings; see Table 1.

Table 1: Cocoa Bean Production and Grinding per West African Country and Region

	Cocoa Bean Production†		Grinding of Cocoa Beans†		% Share World Production		% Share World Grinding		% Share Grinding in National Production	
	2000	2016	2000	2016	2000	2016	2000	2016	2000	2016
Cˆote d’Ivoire	1,403.60	2,019.60	235.00	577.00	45.62	42.62	7.94	13.13	16.74	28.57
Ghana	436.90	970.00	70.00	250.40	14.20	20.47	2.37	5.70	16.02	25.81
Nigeria	165.00	245.00	22.00	30.00	5.36	5.17	0.74	0.68	13.33	12.24
Europe			1,335.30	1,627.50			45.14	37.02		
USA			447.60	390.00			15.13	8.87		
Africa	2,155.60	3,622.90	367.50	900.50	70.06	76.45	12.42	20.49	17.05	24.86
Americas*	388.90	759.20	404.00	489.60	12.64	16.02	13.66	11.14	103.88	64.49
Asia&Oceania	532.50	356.70	404.10	988.00	17.31	7.53	13.66	22.48	75.89	276.98
World	3,077.00	4,738.80	2,958.40	4,395.70						

Notes: *without USA; †in thousand tonnes; figures for 2016 are 2016/17 ICCO estimates.
Source: ICCO, Quarterly Bulletin of Cocoa Statistics.

Two patterns emerge when looking more closely into the level of value addition achieved at origin. Firstly, most processing is at the lower level of value addition (Figure 4) and secondly, these lower-level value-added intermediate products are exported predominantly to Europe, while trade within the region in these product categories remains low (Figure 5). The overall share of value addition in exports is small and most of the processed cocoa for export is of the liquor type at the first stage of processing. Only Côte d'Ivoire exports in the high value-added segment of consumer chocolate which is shipped exclusively to France. This pattern is symptomatic of Côte d'Ivoire's strong remaining ties with the former colonial ruler. Cémoi, a French chocolate manufacturer is behind the chocolate production at origin. Some of the chocolate is sold domestically through the French retail giant Carrefour which has recently established a presence in Côte d'Ivoire, while the remaining chocolate is exported to the parent company in France (Cahuzac, 2016). Ghana produces consumer chocolate too, but production is in the hands of domestically owned companies and (official) export volumes were too small in 2016/17 to show in Figure 4.

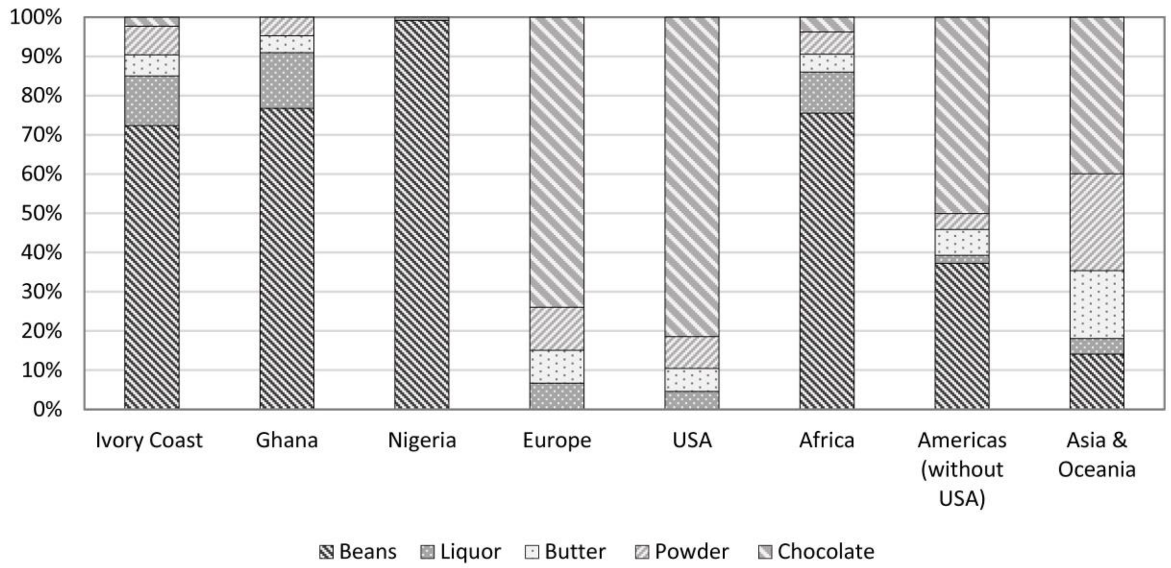
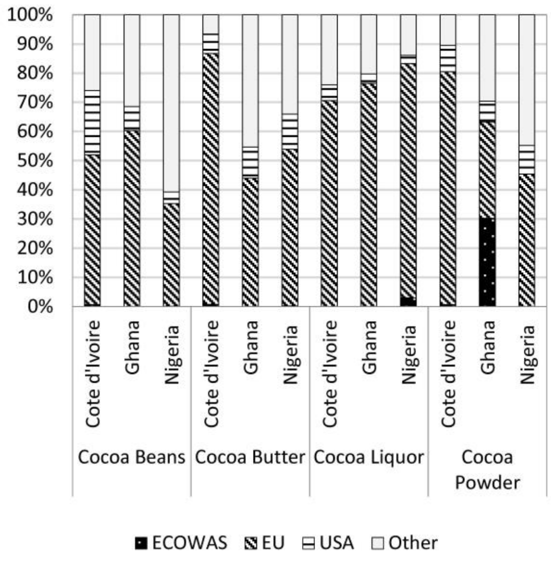


Figure 4: Value Addition in Export 2016/17. *Note:* Percentage estimated from tonnes of exports. This underestimates some of the value addition that is for the domestic market. *Source:* ICCO, Quarterly Bulletin of Cocoa Statistics, various volumes.

While trading in the lower value-added segments is dominated by exports to Europe, export and import partners in the higher value-added cocoa powder and chocolate segment are more diverse, with some volume being attributable to intra-regional trade. Figure 5 depicts trade volume over a 5-year period to overcome the problem of erratic data on intra-regional trade. According to Figure 5, Ghana and Côte d'Ivoire are regional suppliers of cocoa powder, and Ghana is a regional supplier of consumer chocolate. Despite low and volatile trading volumes, almost 20 per cent of Côte d'Ivoire's chocolate imports between 2010-15 originate from Ghana and 15 and 25 per cent of Nigeria's and Ghana's cocoa powder imports respectively originate from Côte d'Ivoire. Senegal re-exports chocolate imported from Turkey to its neighbouring countries within ECOWAS. Albeit small in scale, regional trade contributes significantly to domestic consumption of cocoa and cocoa containing food stuff, supporting the hypothesis that regional markets can promote functional upgrading into higher value-added segments of the cocoa-chocolate chain.[21]



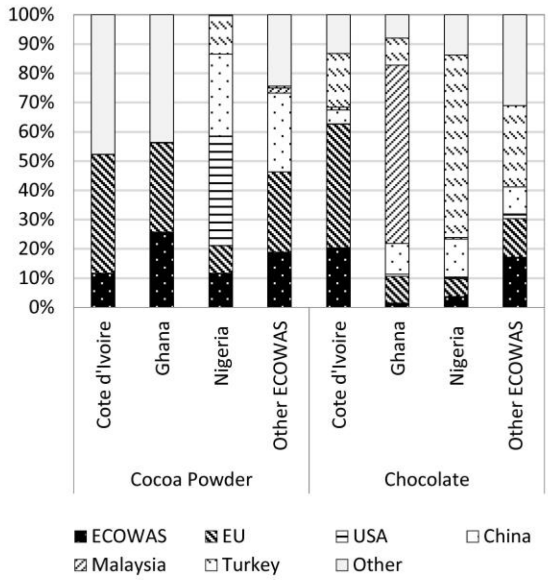


Figure 5: Percentage Share of Trading Partner in Total Exports (left) and Imports (right). *Notes:* Shares estimated from total trade between 2010-15 in tonnes. Categories with less than 200,000 tonnes of trading combined over the 5-year period have been excluded. *Source:* UN Comtrade.

One should note that Figure 5 does not account for smuggling of cocoa beans across borders between Côte d'Ivoire and Ghana. Both countries have different price setting mechanisms resulting in potentially huge arbitrage opportunities and up to 100,000 tonnes, about 10 per cent of total annual harvest per country can change borders in a single crop year. The two countries have recently started coordinating farmgate prices more closely, which was made possible by the introduction of the Conseil du Café Cacao (CCC) in Côte d'Ivoire in 2011, reversing decades of liberalisation in the sector (Bymolt et al., 2018). In a most recent act of collaboration, Ghana and Côte d'Ivoire joint forces in 2019, demanding a $2,600 per tonne minimum price for the 2020/21 cocoa season to ensure a living income for farmers (Reuters, 2019). However, the initiative, albeit originally successful, has been threatened by the latest COVID-19 induced commodity crisis.

[21] Similar observations hold for other value-added consumer products consumed in the region for which regional trade is significant (ITC, 2016). However, overall, the region remains primary commodity export dependent with exports from the region to the Global North.

3.2 Anatomy of a Failed Regional Integration Paradigm

Despite the potential of a regional market to promote value addition at origin, value addition in the West African cocoa-chocolate sector remains low and where it occurs in larger volume (e.g., chocolate production in Côte d'Ivoire), seems to be disconnected from the opportunities regional markets have to offer. These observations outlined in the previous section raise the question what the hindering factors to value addition through regional markets are. Three factors might explain the current situation. Firstly, the governance structure of the global cocoa-chocolate value chain with lead firms preventing newcomers from entering traditional consumer markers and claiming new and fast-growing markets for themselves. Secondly, the absence of a sector specific regional industrial plan which takes into consideration the interest of all ECOWAS member states as well as common and idiosyncratic constraints. Thirdly, the region' heavy reliance on foreign reserve earnings for macroeconomic management.

Except for Cémoi in Côte d'Ivoire which sells its products exclusively via the supermarket chain Carrefour, the development of a domestic or regional cocoa-chocolate industry has been carried by domestic owned processors and manufacturers which operate, with few exceptions, on a smaller scale than their MNC counterparts. The partly state-owned Ghanaian Cocoa Processing Company has long been producing consumer chocolate under the Goldentree brand for the domestic market and recently increased its product portfolio as well as volume of production. In 2011 Niche entered the Ghanaian market for consumer chocolate. While its main business is focused on semi processed cocoa for export, some of the cocoa is processed into chocolate for the domestic and regional market. Some small-scale artisan chocolate producers have also recently emerged such as Instant Chocolat in Côte d'Ivoire, 57 Chocolate and Midunu Chocolates in Ghana, and Loshes Chocolate in Nigeria. These observations leave us with the conclusion that functional upgrading through regional markets by domestic companies is possible.

However, despite these existing capabilities in the production of consumer chocolate, production remains small scale and unable to satisfy even domestic demand as evident from Figure 5. This is despite the sector's potential for expansion regionally as well as overseas. South Asia and Southeast Asia, for instance, are potential markets given the ability of some of the regionally produced chocolate to withstand relatively high temperatures making it possible to be sold by street vendors; a competitive advantage for many Asian and African markets.[22] Certainly, supply side bottlenecks as for instance the lack of key input factors such as sugar, unreliable electricity provision, low access to roads and high transport costs, and an underdeveloped banking system make consumer chocolate produced in the region comparatively

[22] Hershey registered a patent for chocolate that can withstand high temperatures in 2014. Such receipt is crucial to expand into many consumer markets in Asia and Africa where snacks like chocolate are predominantly sold by street vendors and often in high temperatures.

expensive. However, we will argue that the main hindering factors to the expansion of a regional cocoa-chocolate sector are unrelated to the often-cited supply side bottlenecks and instead are a direct consequence of inequalities in global economic power structures rather than regional market imperfections.

A sizable share of the addition to West Africa's cocoa processing capacity over the last decade has been driven by foreign direct investment (FDI). Governments across the region have made efforts to provide incentives for FDI inflow, for instance, by introducing economic free zones which provide tax exemptions for export-oriented businesses and discounts on domestically sourced cocoa beans (e.g., Ghana)[23] or by issuance of export expansion grants (e.g., Nigeria) (UNECA, 2013a). The produce of these foreign owned processing plants is mainly of the low value-added kind (except for Cémoi in Côte d'Ivoire) and exclusively reserved for exports to parent companies for further processing. The fact that incentive structures are tied to value addition for exports (not the domestic or regional market) is an immediate response to the region's disadvantaged position in the international monetary system and globalised finance that cements its high dependence on 'hard' currency for foreign reserve accumulation (Nissanke, 2019).

The ECOWAS countries maintain different exchange rate regimes. However, regardless of the particular regime, large amounts of foreign reserves are required for macroeconomic management. The currency of the WAEMU, the CFA franc (now ECO), is pegged against the Euro. Until recently, in order to maintain the currency peg, the Central Bank of the West African States (BCEAO) deposited a minimum of 50 per cent of its foreign reserves with the French Treasure and France in turn guaranteed full convertibility between the CFA franc and the Euro. The arrangement was a relic of the region's colonial past and has been repeatedly criticised for constraining monetary policy and imposing high opportunity costs by depositing foreign reserves with the French Treasure. Also, with the BRICS economies growing in importance as trading partners, a peg against a single currency is increasingly inadequate. In recent years, sufficient reserves to maintain the peg could only be reached by issuance of Eurobonds by Côte d'Ivoire and Senegal, adding to the region's foreign denominated public debt level. Other currencies, e.g. the Ghanaian Cedi or the Nigerian Naira, do not follow a peg resulting in these being highly susceptible to commodity price fluctuations (e.g. the recent collapse of oil prices has weakened the Naira considerably) and central banks are required to intervene by use of foreign reserves in order to defend the currency if necessary.

Cocoa-based exports contributed about 20 and 40 per cent of Ghana's and Côte d'Ivoire's export earnings respectively in 2015/16. Policies such as the establishment of special economic zones or provision of export expansion grants are aimed at value addition for export outside the region not for the domestic or regional market. The main intention of these policies is the acquisition of foreign exchange. For instance, Niche

[23] Since 2000, nine processing companies have been established in Ghana alone, of which six are either foreign owned or joint ventures with foreign companies.

in Ghana acts mainly as a processing company for intermediate products to satisfy the 70 per cent of production for export threshold to qualify for tax reductions. Domestically owned processing companies are required, like their foreign owned counterparts, to purchase cocoa beans with US dollars to ensure foreign reserve earnings are made on the full harvest. As domestic companies lack access to cheap US dollar funding, it is unsurprising that most processing companies which work on a high volume are foreign owned. Foreign owned companies, mainly MNCs, have not yet moved into exploiting the fast-growing consumer markets of West Africa. The MNCs' business model relies firmly on retailers to reach consumer markets. However, as retail giants are expanding into the West African consumer markets,[24] more MNCs might engage in domestic chocolate production soon. It is this combination of the need of regional governments for foreign reserves and the disinterest (for now) of MNCs for higher value addition at origin, that results in West African cocoa producing countries to remain locked into the lower value-added segment. Full-fledged regional trade liberalisation does not challenge either of these two conditions.

Within the ECOWAS region, Nigeria is the most important consumer market to tap into. As the largest and most populated economy of the region, Nigeria could provide a fertile ground for a regional cocoa-chocolate sector to develop, overcoming the limitation of relatively small domestic markets (Nissanke, 2019). However, Nigeria is also a cocoa producing nation; see Table 1. Although the volume of production is considerably lower than for Ghana and Côte d'Ivoire, Nigeria has intentions to revive its cocoa sector as well as expand cocoa processing capacity for the domestic consumer market and Ghana and Côte d'Ivoire are viewed as competitors rather than allies in the establishment of a regional cocoa-chocolate sector (PwC, 2017). However, considering that the major share of imported chocolate originates from outside the region according to Figure 5, this concern is unfounded.

A sectoral approach to regional integration must hence take the position of the region within the global economy and globalised finance as well as the interests of incumbent market leaders and the interests of all member states within the region into account. This includes the acknowledgment that the removal of tariff or non-tariff barriers will do little to address existing challenges. Quite contrary it might actually promote the import of consumer chocolate from outside the region as evident from chocolate imported from Turkey, Malaysia and Europe into the ECOWAS region; see Figure 5. The establishment of a regional currency, the ECO, could potentially address the dependence of the region on foreign revere earnings (i.e., US dollar and EURO) as discussed in the next section, while interests of individual member states could be aligned by a carefully negotiated and crafted industrial plan.

[24] The so-called supermarket revolution has seen traditional retail giants as well as newcomers entering consumer markets across the African continent in recent years; see Humphrey (2007) and Campbell (2016).

4. Sectoral Integration and Regional Cooperation: Towards a New Paradigm

De facto regional integration in the cocoa-chocolate sector is currently limited in West Africa and hampered by remaining tariff and non-tariff barriers to trade, partly driven by conflicting interests of the main cocoa producing countries and fear of competition from neighbouring countries. Given the growing inflow of consumer chocolate and cocoa containing food stuff from outside, this concern is misguided, and concerted efforts should be made towards more regional cooperation to build, develop and strengthen a regional production network. Regulatory instruments under ECOWAS, namely the ECOWAP and WACIP, could potentially facilitate further cooperation if provided with sufficient resources. An appropriate WACIP, for example, ought to identify key industrial sectors in a coordinated effort with ECOWAP, such as the cocoa-chocolate sector, which could have the potential to promote economic growth in the ECOWAS region and ensure that both foreign and regional investments are harnessed to promote a commodity-based industrialisation. However, the ECOWAS institutional setup is yet insufficient and suffers from funding constraints and coordination failure.

These challenges call for a carefully coordinated approach to sectoral integration, which could be best led by the two state-owned marketing boards in Ghana and Côte d'Ivoire in collaboration with the Ministries of Finance of the ECOWAS member states including Nigeria as another cocoa producer in the region and the ECOWAS Department of Agriculture, Environment and Water Resources (DAEWR). The sectoral approach cannot be limited to cocoa alone but must take a holistic GVC view at the cocoa-chocolate sector including the sourcing of relevant input factors, ranging from fertiliser to sugar, dairy and packaging, all currently sourced from outside the ECOWAS region. These forward and backward linkages have to be carefully forged and promoted.[25]

Such a holistic sectoral approach that brings together and aligns the interests of different industry and policy stakeholders could potentially address existing bottlenecks, help in sourcing key input factors and thereby align interests of the different member states. The dairy sector in Niger and Nigeria is promising while Senegal, Côte d'Ivoire and Nigeria produce sugar cane of relevant volume. The promotion of investments in industries such as dairy, sugar and packaging, combined with an effective reduction of tariff and non-tariff barriers targeting these sectors, would make it possible to develop regional value chains more quickly.

Given these supply side bottlenecks and foreign reserve constraints, a clearly designed and skilfully coordinated industrial policy for the West African cocoa-chocolate sector is essential for the sector to expand. A Cocoa Regional Industrial Policy (RIP), which aligns with the proposed paradigm based on *regional developmentalism*, has already been suggested as an appropriate regulatory solution

[25] The argument here is aligned with points made by Hauge (2020) and Behuria (2020) who argue about the importance of combining the GVC perspective with a developmentalist industrial policy and political economics perspective.

(Traore, 2016). The region's growing demand for chocolate and cocoa containing foods provides a fertile ground for a regional industry to develop. Regional capabilities in chocolate production already exist. Once matured, the industry could tap into potential consumer markets overseas and across the continent. The Cocoa RIP can be used to improve the business environment for cocoa-chocolate production, including through a concerted and strategic effort to establish more special economic zones (SEZ) across the region. These SEZ would give infant industries the opportunity to develop their competitiveness, while building and strengthening regional value chains. A further step would be to support increased access to financial and technical resources in the sector across the region, and also help channel more investment in related sectors.

These initiatives should be combined with infant industry protection measures, including tariffs, import quotas and subsidised government loans. These measures, which are used to promote import substitution industrialisation (ISI), could be accommodated under the WTO Enabling Clause, which is designed to benefit regional trade agreements involving less developed countries, as well as GATT 94 article XVIII, which includes special measures for the protections and the nurturing of infant industries in poor developing countries; see the discussion on safeguard measures and GATT 94 article XVIII in Bashi Rudahindwa (2018, p.47). These ISI measures would be temporary, allowing the region to promote a full liberalisation once a higher level of industrialisation has been achieved (Adewale, 2017).

For the Cocoa RIP to be successful, infrastructure investment must be an integral part of the Cocoa RIP design to address the high demand in transport infrastructure, with the creation or the strengthening of various trade routes across the region, to promote physical integration which is critical in the development of regional value chains. To address the institutional gap within ECOWAS, the Cocoa RIP should be specifically designed to strengthen the capacity of industry support institutions such as the Regional Agency for Agriculture and Food (RAAF), the ECOWAP implementation agency under the control of the DAEWR. The RAAF could work more closely with the two state-owned marketing boards in Ghana and Côte d'Ivoire and their counterparts in other ECOWAS Member States, allowing them to foster a more competitive and more interconnected regional market.

Given the region's dependence on foreign reserve earnings, a regional approach to macroeconomic management must also be part of a holistic sectoral approach. Recent attempts to establish a common regional currency, the ECO, could ease this constraint depending on the design of the new currency. However, the introduction of a common ECO within ECOWAS including both UEMOA and WAMZ seems unlikely in the near future, given heterogeneity in the different economies involved and scepticism among some key players such as Nigeria. The recent replacement of the CFA Franc with the ECO is more symbolic than functional as the ECO of the UEMOA is still pegged to the Euro. A common currency, as already present among the francophone countries under UEMOA, can ease foreign reserve constraints for input requirements. However, a monetary union also bears risks, especially if member states are heterogeneous. Low tariffs for processed cocoa and consumer chocolate and cocoa containing food staff are also already in place for UEMOA members, benefitting Côte d'Ivoire's cocoa-chocolate sector. These should be expanded for the ECOWAS region.

A well-designed Cocoa RIP would therefore be used to promote market opportunities, address challenges (regional and external) and support competitiveness through increased investment and capacity development. Efforts from individual countries to move into higher value-added segments of the cocoa-chocolate chain would benefit from such a regional regulatory framework for the sector, which can tackle various supply side bottlenecks and coordinate the chain segments.

5. Conclusion

Regional integration has been a key policy initiative across the African continent as evident from multiple and growing numbers of regional schemes. Yet, most of the existing schemes have so far failed to deliver on their objectives of trade creation, trade diversification and regional economic integration. Acknowledging the conventional argument of design flaws in the institutional arrangements of existing regional schemes to explain these failures, we go further and argue that the concept of regional integration in itself is inappropriately framed to achieve the objectives associated with it in the context of most African economies which suffer from primary commodity export dependence and low level of export diversification. We argue that in this context, a reduction of tariff and non-tariff barriers to trade (the prime policy tool for regional integration schemes to fulfil their objectives) is unlikely to result in regional trade creation and further economic integration.

We demonstrate this hypothesis focusing on ECOWAS, which has adopted an EU inspired linear approach to regional economic integration in which both regulatory and institutional frameworks (de jure integration) have been improved over the years to advance the integration process and establish an Economic Union. At the same time efforts towards an effective formal regional economic integration (de facto integration) have been relatively slow. Taking the West African cocoa-chocolate sector as a case study we identify three key factors that contribute to the de jure - de facto fallacy of the ECOWAS regional integration schemes: Firstly, the governance structure of the global cocoa-chocolate value chain which is dominated by few lead firms. Secondly, conflicting interests of ECOWAS member states. Thirdly, the region' heavy reliance on foreign reserve earnings for macroeconomic management. None of these hinder factors to regional economic integration can be resolved through reduction of barriers to trade.

Based on our analysis, we propose an alternative concept to regional integration that is more suitable for economies where the need for structural transformation is prevalent and comparative advantages need to be created through strategic regional governance. Our alternative approach is based on the concept of *regional developmentalism*, inspired by the new developmental state paradigm. This approach advocates for gradual rather than full-fledged trade liberalisation, through greater state intervention to steer productive capacity development and the establishment of regional value chains with a view to promoting regional development through industrialisation, economic transformation and export diversification. We demonstrate and evaluate the *regional developmentalism* approach for the West African cocoa-chocolate sector.

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